



WEEKLY ECONOMIC DIGEST

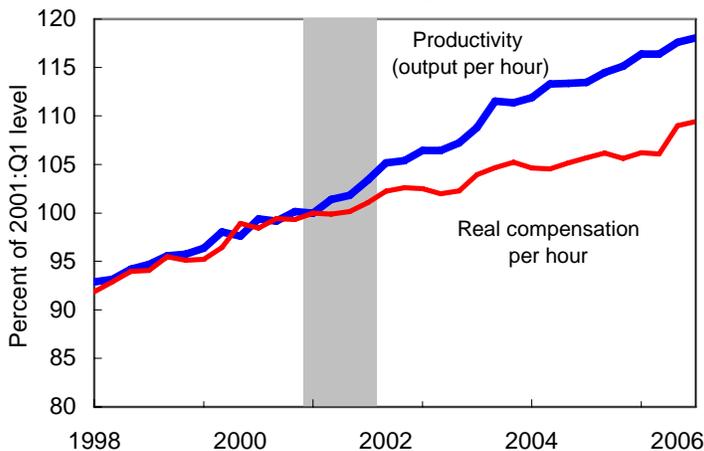


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

September 12, 2006

Labor Costs Revised Upward Sharply but Still Lag Far Behind Productivity

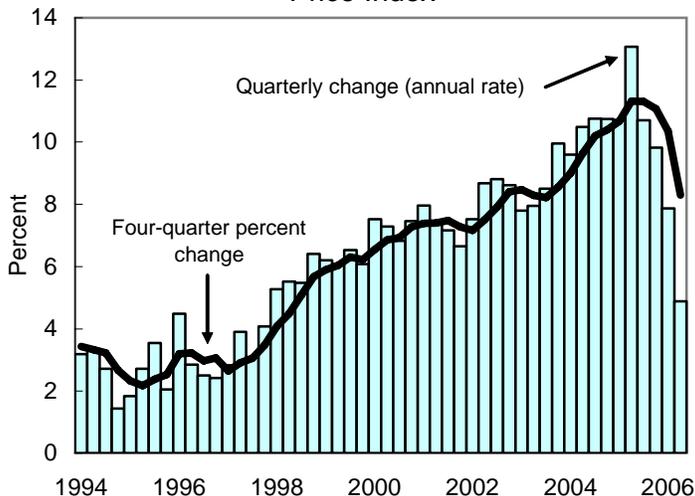
Productivity and Real Compensation per Hour for Nonfarm Businesses



Source: JEC calculations based on data from the Bureau of Labor Statistics, U.S. Department of Labor and the National Bureau of Economic Research.

Note: The gray area indicates a period of recession as defined by the National Bureau of Economic Research.

Change in OFHEO Purchase-Only House Price Index



Source: Office of Federal Housing Enterprise Oversight.

- **Revised data still show that productivity moderated in the second quarter.** Output per hour worked in private nonfarm establishments grew at a 1.6 percent annual rate in the second quarter after advancing at a 4.3 percent rate in the first quarter, according to revised estimates by the Department of Labor. The preliminary estimate of second-quarter productivity growth had been 1.1 percent and the new estimate reflects the recent upward revision to gross domestic product.
- **Compensation was revised up sharply.** Real (inflation-adjusted) compensation per hour (wages plus benefits) of workers in nonfarm businesses grew at an annual rate of 1.6 percent in the second quarter after jumping 11.3 percent in the first quarter, according to revised estimates by the Department of Labor. First quarter compensation was revised up sharply, reflecting the recent large revision to compensation in the national income data. Nevertheless, the 9.4 percent increase in real compensation per hour since the first quarter of 2001 is only about half the 18.0 percent gain in productivity over the same period (see top chart).

- **Higher labor costs were not seen as increasing expected inflation.** Despite the increase in labor costs in the first half of this year, financial futures markets reflected a strong expectation that the Federal Reserve will not raise interest rates at its next meeting on September 20. One reason may be the belief that the jump in compensation was caused by bonuses and the exercise of stock options by highly compensated people rather than an increase in wage costs generally.
- **The housing market continued to cool.** The Office of Federal Housing Enterprise Oversight (OFHEO) house purchase price index has been slowing sharply and grew at an annual rate of just 4.9 percent in the second quarter (see bottom chart). The supply of new single-family homes available for sale in July stood at 6½ months of supply at the current sales rate, its highest level in more than a decade, suggesting that prices will slow further.

The Economy at a Glance	Aug	Jul	Jun	May	2006 Qtr 2	2006 Qtr 1	2005 Qtr 4	2005 Qtr 3	2005	2004
Economic Activity										
Real GDP (% growth)	—	—	—	—	2.9	5.6	1.8	4.2	3.2	3.9
Industrial Production (% growth)*	n.a.	4.9	10.0	0	6.2	5.1	5.3	1.4	3.3	4.1
Capacity Utilization (level, %)*	n.a.	82.4	82.3	81.7	81.9	81.1	80.5	79.8	80.0	78.6
Civilian Unemployment Rate (level, %)	4.7	4.8	4.6	4.6	4.7	4.7	5.0	5.0	5.1	5.5
Housing Starts (thousands)	n.a.	1795	1841	1953	1875	2123	2060	2101	2073	1950
Real Disposable Personal Income (% growth)	n.a.	4.1	4.4	0.2	1.5	4.6	5.5	-0.6	1.2	3.6
Retail Sales (% growth)*	n.a.	18.1	-4.7	2.4	3.5	13.4	2.1	8.1	7.2	6.2
Personal Saving Rate (level, %)	n.a.	-0.9	-0.7	-0.8	-0.7	-0.3	-0.3	-1.5	-0.4	2.0
Inflation & Productivity										
CPI-U Inflation, all items (% growth)*	n.a.	4.9	2.4	4.9	5.0	2.2	3.2	5.5	3.4	2.7
Core CPI-U Inflation (% growth)*	n.a.	2.4	3.7	3.7	3.5	2.4	2.4	1.6	2.2	1.8
Compensation per hour (% growth)	—	—	—	—	3.6	2.4	3.2	3.2	3.3	3.7
Output per hour (% growth)	—	—	—	—	1.6	4.3	-0.1	4.4	2.3	3.0
Financial Markets										
T-bill Rate, 3-month (level, %)	4.96	4.95	4.79	4.72	4.70	4.39	3.83	3.36	3.15	1.37
T-note Rate, 10-years (level, %)	4.88	5.09	5.11	5.11	5.07	4.57	4.49	4.21	4.29	4.27
Federal Funds Rate (level, %)	5.25	5.24	4.99	4.94	4.90	4.46	3.97	3.46	3.22	1.35
Dow Jones Industrial Avg (index level)	11257	11033	10998	11334	11189	10996	10616	10544	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Upcoming Economic Releases:

- **U.S. International Trade in Goods and Services: July 2006 (Revised)** [Release: Tuesday, September 12]
- **Monthly Treasury Statement of Receipts and Outlays of the U.S. Government: August 2006** [Release: Wednesday, September 13]
- **Manufacturing and Trade Inventories and Sales : July 2006** [Release: Thursday, September 14]
- **U.S. Import and Export Price Indexes: August 2006** [Release: Thursday, September 14]
- **Advance Monthly Sales for Retail and Food Services: August 2006** [Release: Thursday, September 14]
- **Consumer Price Index: August 2006** [Release: Friday, September 15]
- **Industrial Production and Capacity Utilization: August 2006** [Release: Friday, September 15]
- **U.S. International Transactions: Second Quarter 2006** [Release: Monday, September 18]